

CITY OF WALLA WALLA
Walla Walla County, Washington
January 1, 1995 Through December 31, 1995

Schedule Of Findings

The following finding is a direct result of conditions that were noted in our 1993 and 1994 audit reports. As we have recommended in our previous two audit reports, we strongly recommend the Municipal Court terminate processing on the Lawpak system and transfer all accounts to their DISCIS system. Due to the internal control weaknesses noted in our previous audit findings, and specifically, the weaknesses created by the use of two systems, the risk remains **high** that continued use of the Lawpak system could result in further fraud and/or irregularities.

1. Public Funds Were Misappropriated And Accounting Records Were Falsified In The Municipal Court

Our audit of the financial records of the Municipal Court revealed that at least \$995 in public funds was misappropriated by one or more court employees during the period October 1, 1995, through August 31, 1996. Accounting records were falsified in an attempt to conceal these losses. There were no federal funds involved in this case. These funds were misappropriated as described below.

- a. Cash receipts recorded in the DISCIS account system for October 25, 1995, were never deposited in the bank. The deposit included \$170 in currency and a \$25 money order. The currency from this missing deposit was simply taken; however, an unknown court employee used a check for cash substitution scheme to obtain the funds from the money order by including it in a subsequent deposit in the Lawpak accounting system. DISCIS is the statewide court accounting software recommended by the administrator of the courts. Lawpak is a locally purchased software used jointly by the police for tracking citations and by the court for municipal court accounting needs.
- b. An unknown court employee used a check for cash substitution scheme to misappropriate cash receipts totaling \$300 on November 4, 1995. Two recorded cash receipt transactions were manipulated. First, a \$588 transaction from a collection agency payment was incorrectly receipted in a reduced amount of \$288. To offset this overage condition, \$300 in currency from an unrelated bail transaction was then misappropriated.
- c. An unknown individual took \$500 in currency from a bail transaction which was delivered to the court on July 19, 1996. The original funds from this transaction were inadvertently overlooked during the deposit process and stored in an unsecured location. After a subsequent review determined that the funds were missing, a court employee issued a personal check to reimburse the court for this loss of funds. This check was then deposited on August 18, 1996.

RCW 42.20.070 states in part:

Every public officer, and every other person receiving money on behalf or for or on account of the people . . . of any county, city . . . who:

- (1) Shall appropriate to his own use or the use of any person not entitled thereto, without authority of law, any money so received by him as such officer or otherwise; or
- (2) Shall knowingly keep any false account, or make any false entry or erasure in any account, of or relating to any money so received by him; or
- (3) Shall fraudulently alter, falsify, conceal, destroy or obliterate any such account; or
- (4) Shall willfully omit or refuse to pay over to the state, its officer or agent authorized by law to receive the same, or to such county, city, town, or such school, diking, drainage or irrigation district or to the proper officer or authority empowered to demand and receive the same, any money received by him as such officer when it is a duty imposed upon him by law to pay over and account for the same, shall be punished by imprisonment in the state penitentiary for not more than fifteen years.

The following internal control weaknesses allowed these losses to occur and not be detected by court officials in a timely manner.

- a. When the court implemented the DISCIS accounting system, it did not discontinue use of the Lawpak accounting system. Thus, the court maintained two computer systems, two cash receipts systems, and two bank accounts for court activity. However, as reported in our 1993 and 1994 audit reports, there are significant deficiencies in the Lawpak accounting system. For example, the system:
 - (1) Does not provide for an audit trail over the transactions deleted from the system.
 - (2) Has no accounts receivable control account; thus, there is no subsequent reconciliation of the subsidiary ledger and control account for this revenue activity.
 - (3) Has no records for noncash transactions authorized by the judge.

The above finding is a direct result of the court's failure to implement our previous recommendations to terminate the processing of all transactions on the Lawpak accounting system and to transfer fund accountability to the DISCIS accounting system. If the city continues to use the two accounting systems in the future, the risk remains high that additional fraudulent transactions and other irregularities may continue to occur in the Municipal Court.

- b. The court uses multiple cashiers on a single cash drawer. Thus, there will be no fixed responsibility for any losses which might occur during transaction

processing.

- c. The court does not record mode of payment (i.e., by check or cash) on cash receipts processed in the Lawpak accounting system. Thus, it is difficult and costly to determine whether the composition of the bank deposits agrees with the mode of payment for all cash receipt transactions processed in the Municipal Court.
- d. There was an inadequate segregation of duties when the court clerk also acted as a cashier.
- e. Bank statement reconciliation items were not promptly researched.
- f. Manual cash receipt forms were used for bail deposits rather than DISCIS accounting system receipts.
- g. There was a lack of supervisor review and monitoring of the court's operations.

We recommend the City of Walla Walla seek recovery of the misappropriated \$495 and related audit/investigation costs from their insurance bonding company. We further recommend the Washington State Office of the Attorney General and the Walla Walla County Prosecuting Attorney review this matter and take whatever action is deemed necessary under the circumstances. Any compromise or settlement of this claim must be approved in writing by the Attorney General and State Auditor as directed by RCW 43.09.260.

Bond coverage for city employees is as follows:

Company:	Fidelity and Deposit Company of Maryland
Type:	City Blanket Bond) Employee Dishonesty
Number:	8680298-1
Amount:	\$20,000
Term:	June 7, 1990, to Present

We also recommend the City of Walla Walla Municipal Court:

- a. Terminate all transaction processing on the Lawpak accounting system and transfer fund accountability to the DISCIS accounting system.
- b. Review overall accounting controls, correct the weaknesses outlined above, and implement an effective system of internal control designed to ensure the protection of public assets.